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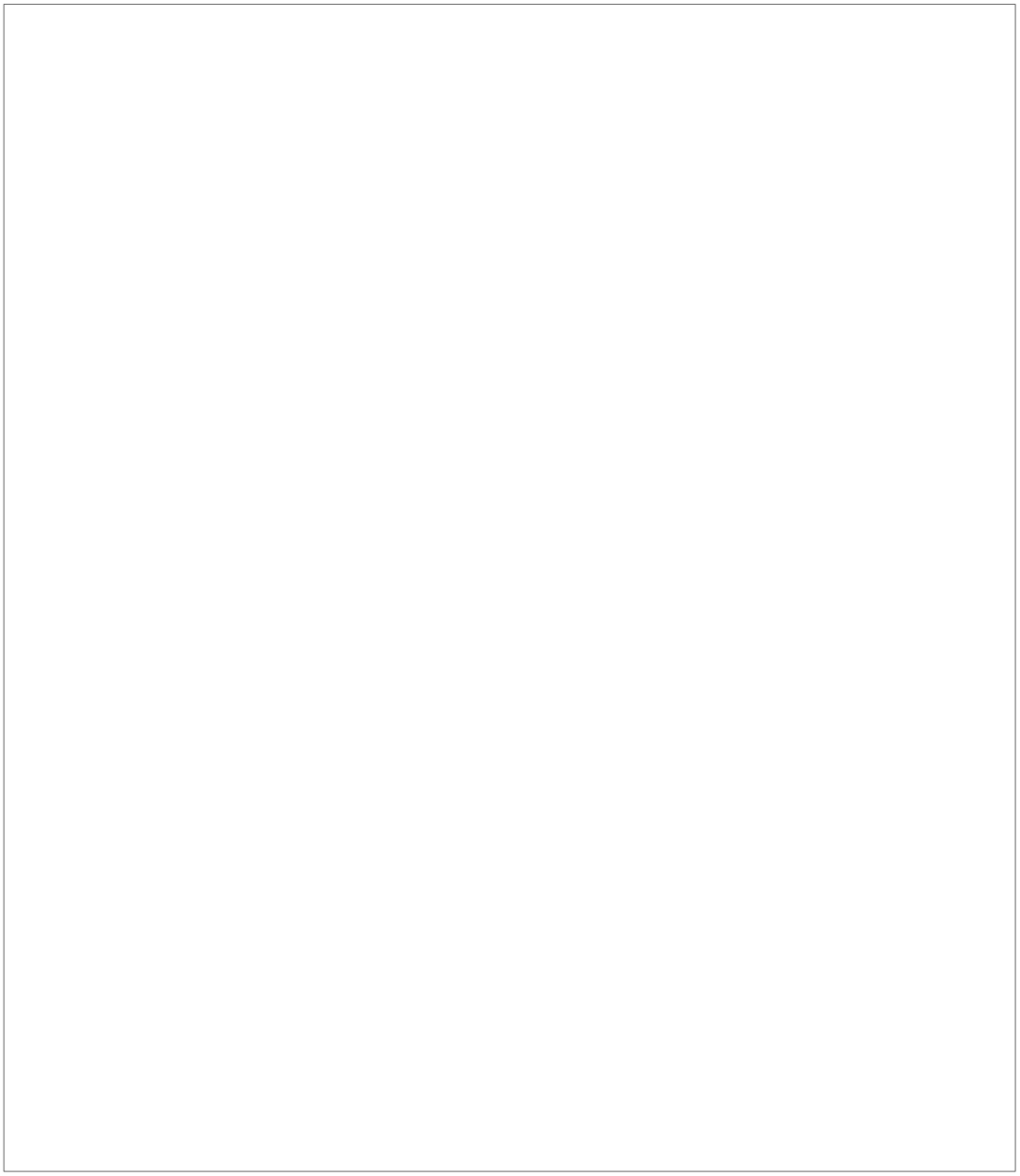
Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Tuesday, 31 July 1990



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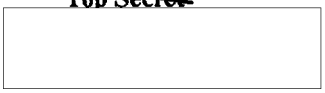

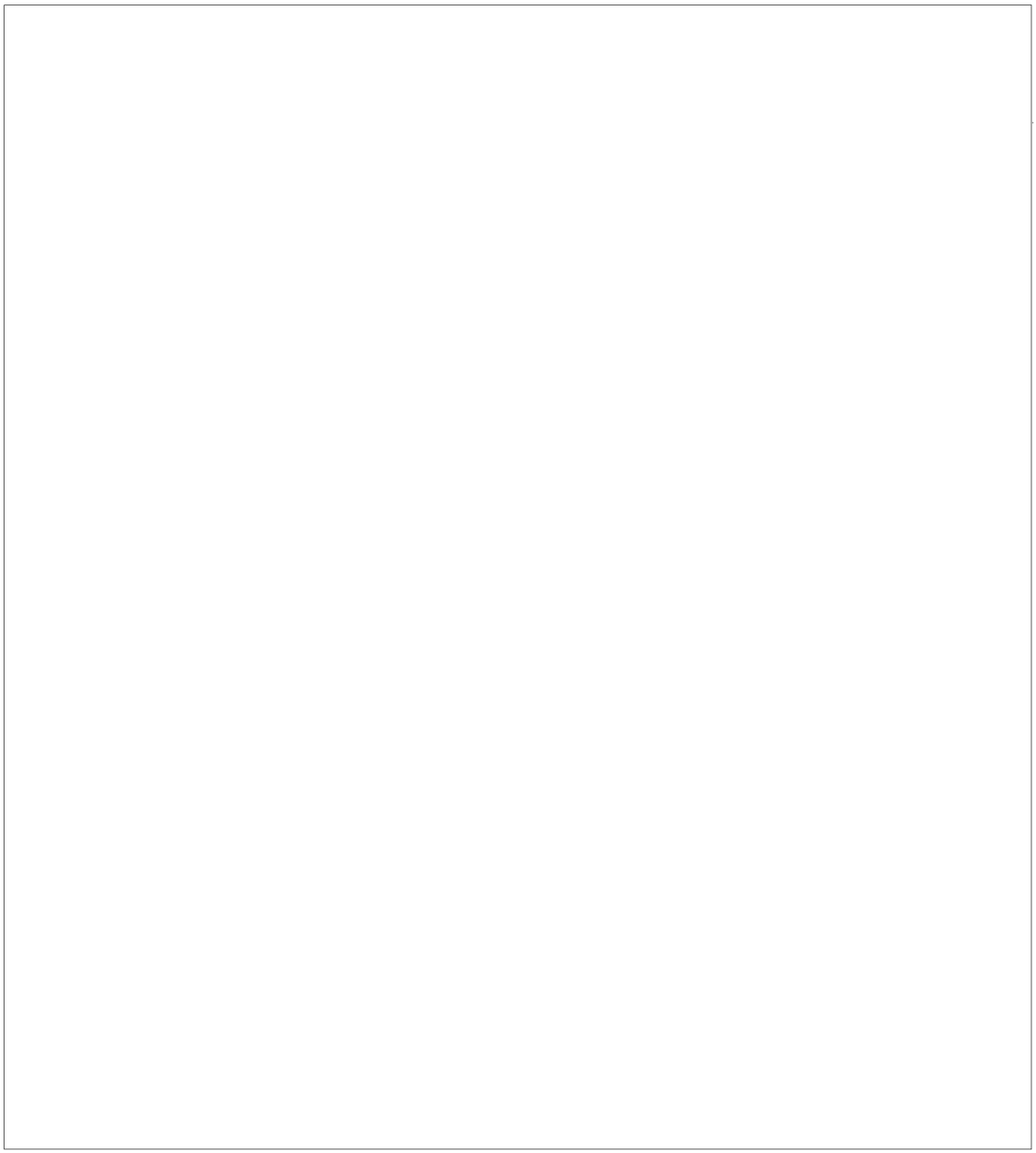

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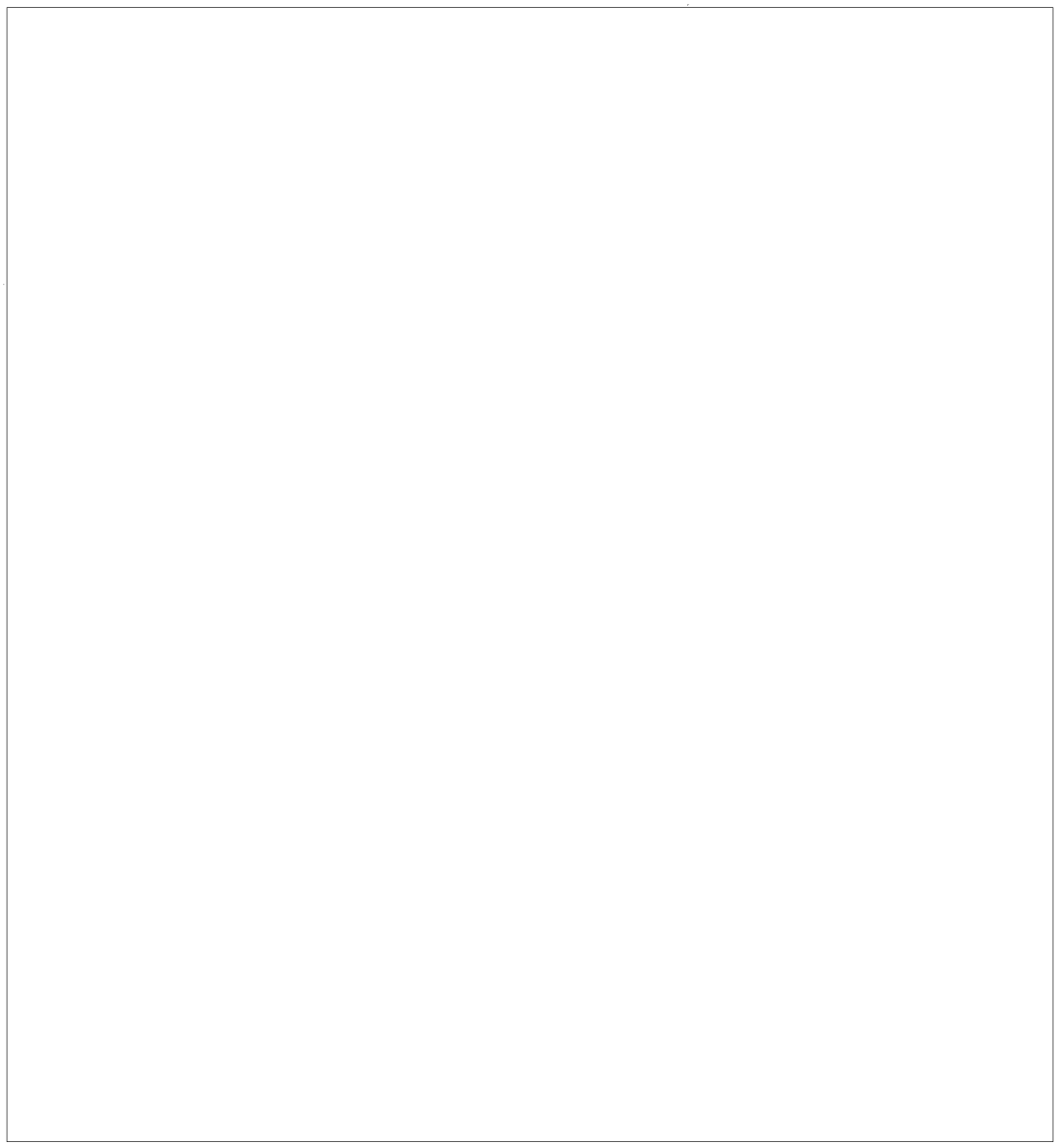

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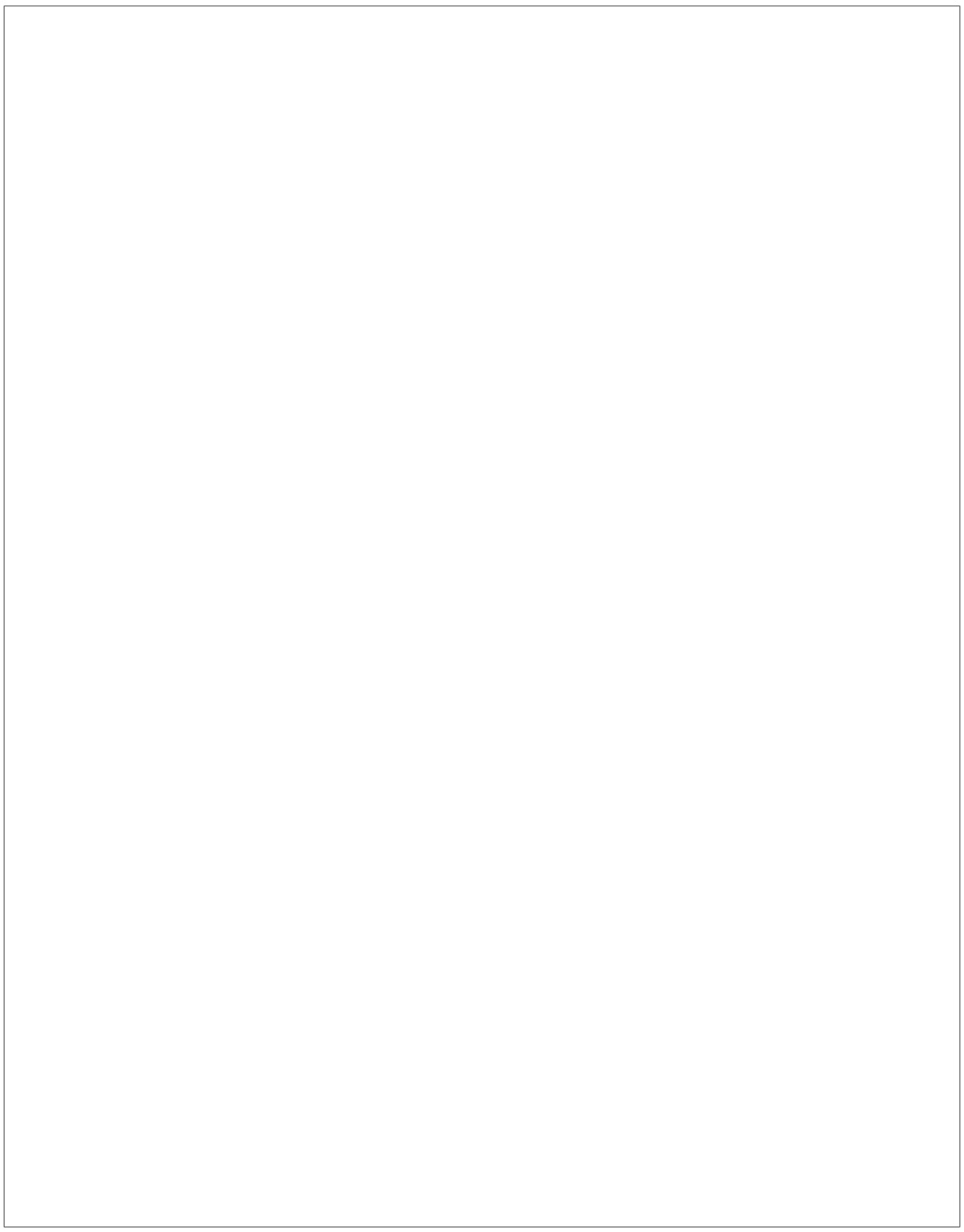

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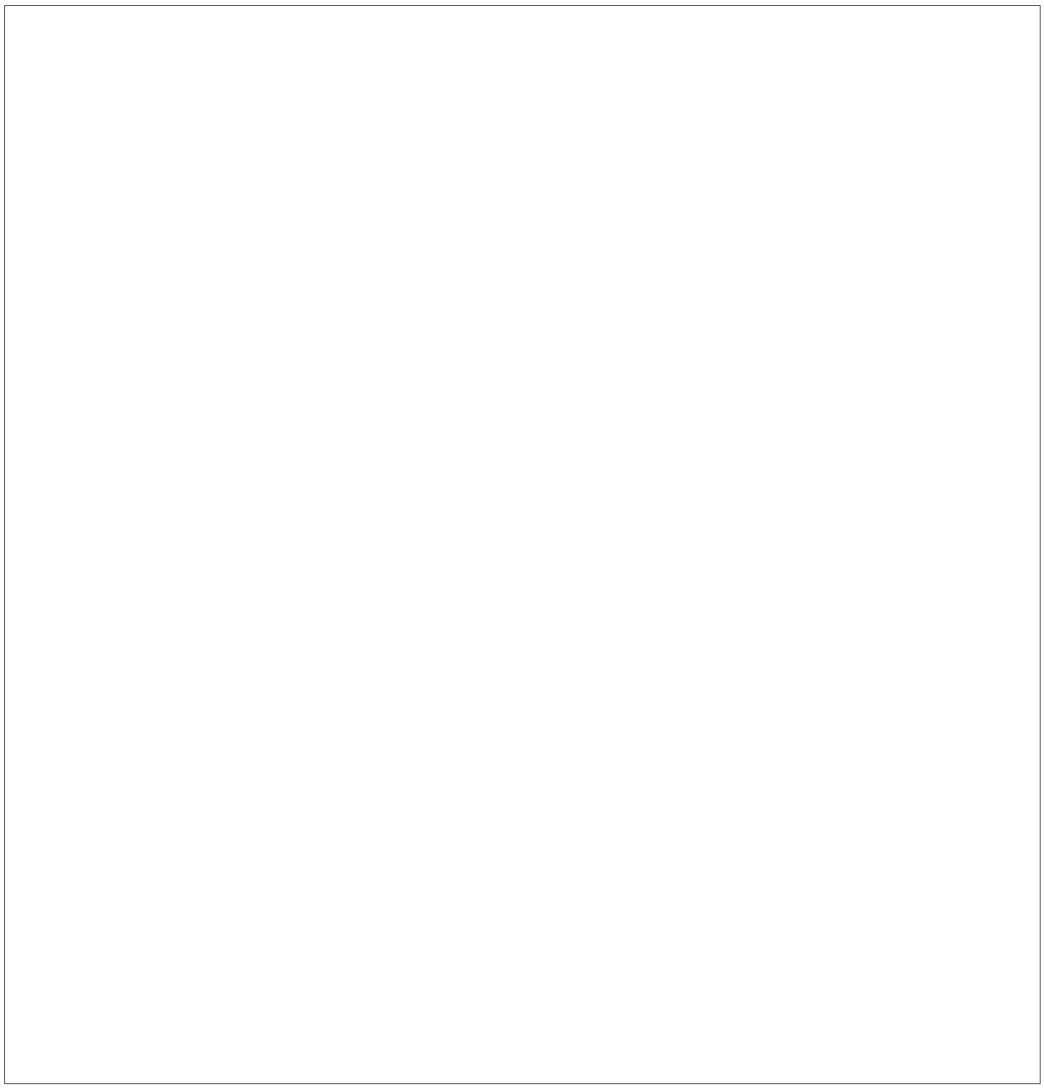

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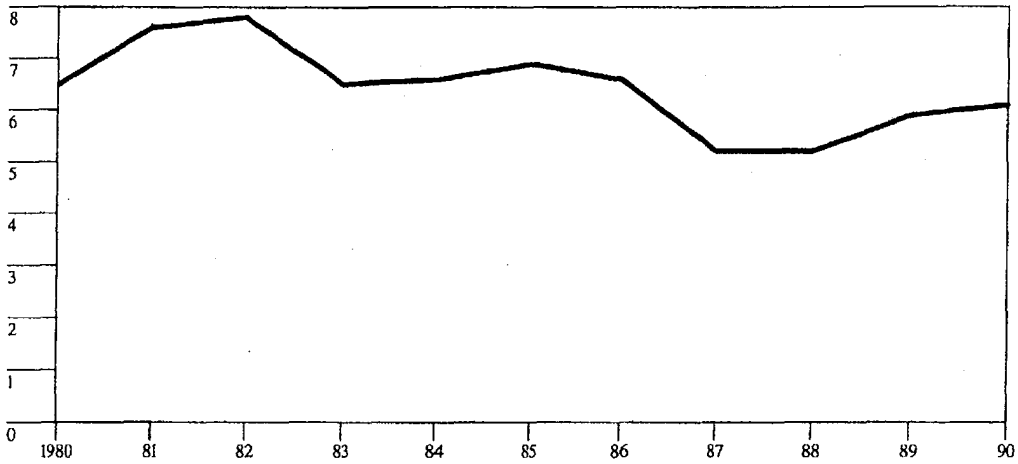
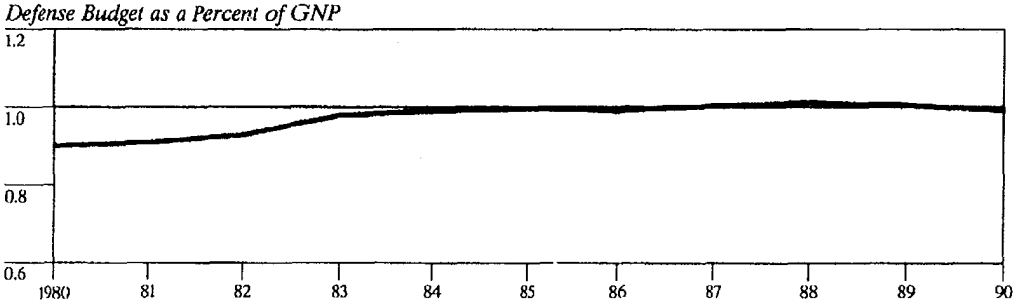
Trends in Japanese Defense Spending, 1980-90

Percent Growth[a]



Defense Budget as a Percent of GNP



[a]Final budget.

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JAPAN: **Holding Down Defense Spending Increase**

The Cabinet decision last Friday to hold the increase in next year's defense budget to no more than 5.8 percent stems from eroding support for defense in the Liberal Democratic Party.

The growth ceiling is significantly below the one set at this stage of the budget process last year; Finance Ministry officials say it is the lowest since these ceilings were first used in 1961. The government has also postponed final decisions on the shape of the coming Midterm Defense Plan until December, forcing the Defense Agency to delay introducing new weapon systems—probably including AWACS aircraft and tanker aircraft—for at least a year.

The Defense Agency's allies in the ruling party are defecting; only about half of LDP legislators now favor any increase in the defense budget. Defense officials, resigned to the new climate of opinion in the LDP, reportedly are focusing on protecting the current force structure and equipment levels.

Comment: NATO's declaration that it no longer views the USSR as a potential enemy, the absence of a reference to the Soviet threat at the Houston summit, and Moscow's acquiescence in Germany's membership in NATO are confirming the popular assumption in Japan that the Cold War is over. Leaders of the LDP evidently believe they must respond with a more modest defense effort. They may think this change will not disturb the US because they see Washington putting a lower priority on improvements in the Japanese military than it did in past years.

Negotiations on the budget, which must be completed by December, typically produce a final defense spending figure that is below the ceiling. This year should be no different. Increased personnel costs and Japan's commitment to increase subsidies for US forces would require budget growth of at least 5 percent if Tokyo is not to undercut its own defenses.

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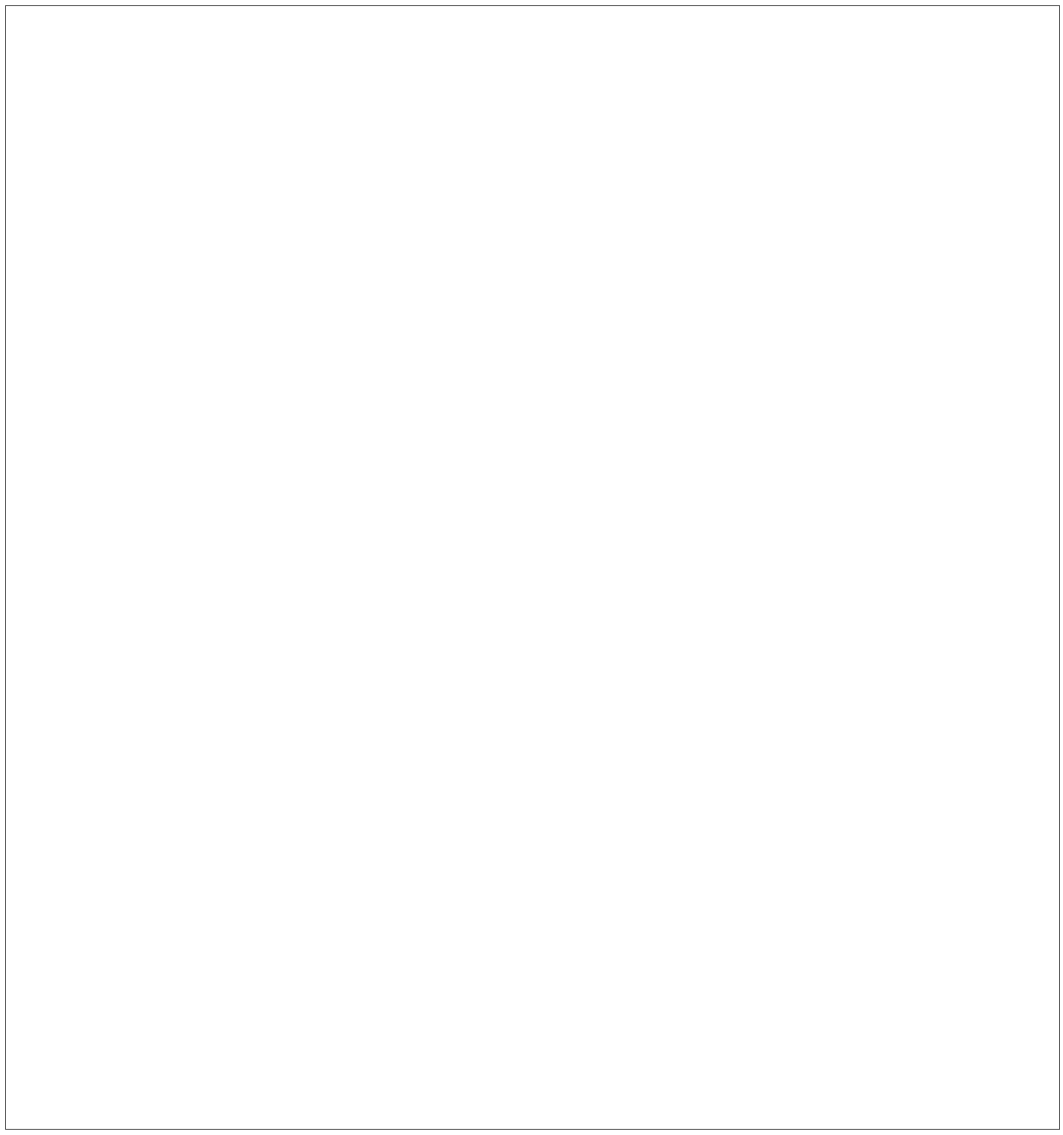

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Italy Pledging Export Credits to USSR

Prime Minister Andreotti told the press in Moscow that Rome is willing to extend a $1 billion export credit line to the USSR. His pledge will receive widespread support at home. Almost all Italian political and business leaders want to increase exports to the USSR so as to help Gorbachev reform the economy and to provide a counterweight to Germany's growing influence.

USSR-EC: Political Dialogue Expanding

Gorbachev solicited the visit to Moscow last week by representatives of the EC presidency country, Italy, Discussions with Prime Minister Andreotti and Foreign Minister De Michelis and with EC Commission President Delors earlier probably focused on economic issues. Soviet media coverage and official statements, however, also stressed the importance of political dialogue with the EC, particularly on planning for the November CSCE summit. At the recent summit preparatory conference, Moscow apparently timed presentation of its draft summit agenda to exploit similarities with EC thinking.

Comment: The Soviets probably hope to capitalize on the increasing political cohesion within the EC to strengthen their own position within CSCE and to shape the summit agenda. Moscow almost certainly sees the growing stature of the EC as a counter to the US and NATO and probably hopes the EC will view closer ties to the USSR as a means of enhancing the Community's independence.

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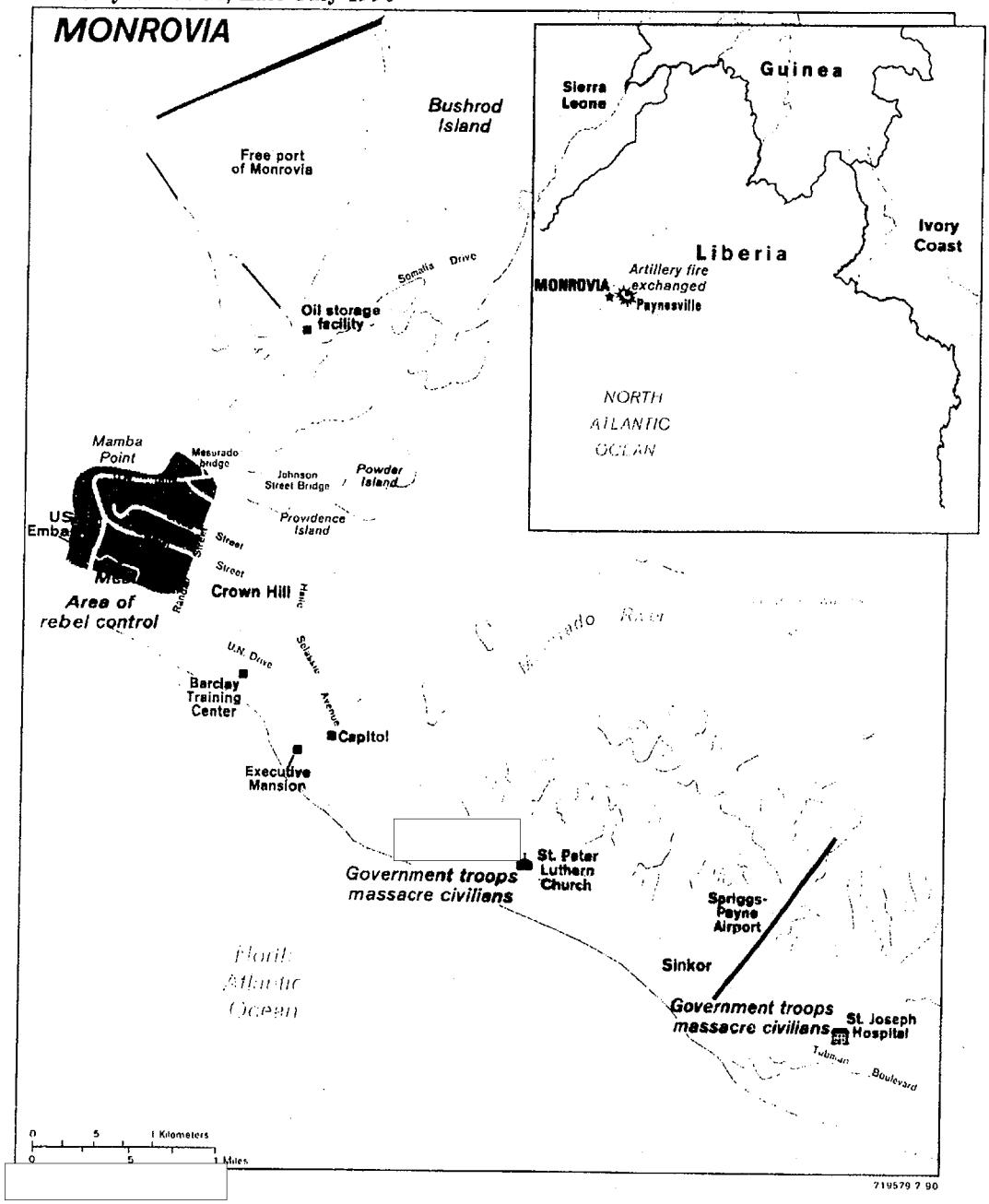
Military Situation, Late July 1990



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LIBERIA: Security Situation Worsens

Prince Johnson's forces continued to strengthen their position in Monrovia, gaining control of Mamba Point and driving army soldiers back toward the Barclay Training Center. Johnson's rebels say they expect to capture the Training Center today. The army and Charles Taylor's troops exchanged artillery fire in the Paynesville area. Army soldiers attacked the Lutheran church compound, spraying the refugees there with automatic weapons fire. as many as 200 people were killed and another 80 were wounded. An international aid representative claims soldiers also killed roughly 150 civilians and wounded another 100 in a refugee camp near St. Joseph Hospital. Taylor's spokesman yesterday told reporters the US probably was supporting Johnson's forces. He claimed Johnson had communicated directly with the US Ambassador

Comment: The Embassy now is directly behind rebel lines, making US officials more vulnerable to stray gunfire if the army attempts to retake the area. Accusations by the army, and now by Taylor's group, that the US is supporting Johnson's forces may cause army hostility toward US citizens to increase.

ISLAMIC STATES: Foreign Ministers To Convene

The Organization of Islamic Conferences (OIC) meeting that opens in Cairo today probably will call for Islamic and Arab unity and express opposition to Soviet Jewish immigration to Israel. Some discord almost certainly will arise, however, among the approximately 40 Foreign Ministers who will attend. Pakistan probably will push hard for support in its standoff with India over Kashmir; Iran will not send its Foreign Minister but probably will try to persuade OIC members to censure Riyadh for the recent tragedy in Mecca during the hajj and call for international Islamic supervision over the holy cities. According to press reports, the imbroglio between Iraq and Kuwait will not be on the agenda.

Comment: Chairing the conference is a plus for Cairo in its campaign to establish Islamic credentials at home and in the Arab world. Cairo will lead moderates trying to avoid inflammatory rhetoric and keep divisive issues off the agenda. Any resolution on Kashmir is likely to be mild because many OIC members have good relations with India. Most delegates will rebuff Iran's attempts to censure the Saudis for the tragedy in Mecca.

EGYPT: Cracking Down on Islamic Extremists

Cairo is moving against Islamic extremists in southern Egypt to prevent the spread of violence and to show its security forces are in control. security forces and some 300 extremists holed up in the mountains have been sporadically exchanging gunfire for two weeks. The shootout follows government attempts this month to break up an antigovernment protest by the extremists that resulted in three deaths and 42 arrests. Islamic extremists are also believed to be behind the shooting of two policemen Friday near an area in Cairo where many US citizens and other foreigners reside.

Comment: Security forces will continue to crack down hard on Islamic extremists. The extremists' tactics have not won much support among mainstream Muslims, but their advocacy of Islamic law and a more equitable economic system may become a rallying point for fundamentalists in this fall's election to the People's Assembly. The Muslim Brotherhood, which has 35 seats in the 458-seat body, probably will gain more.

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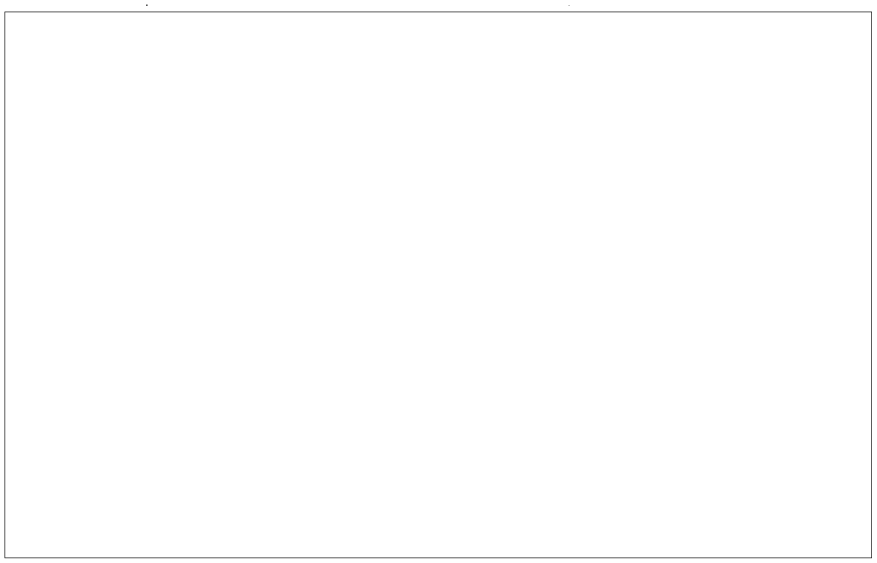

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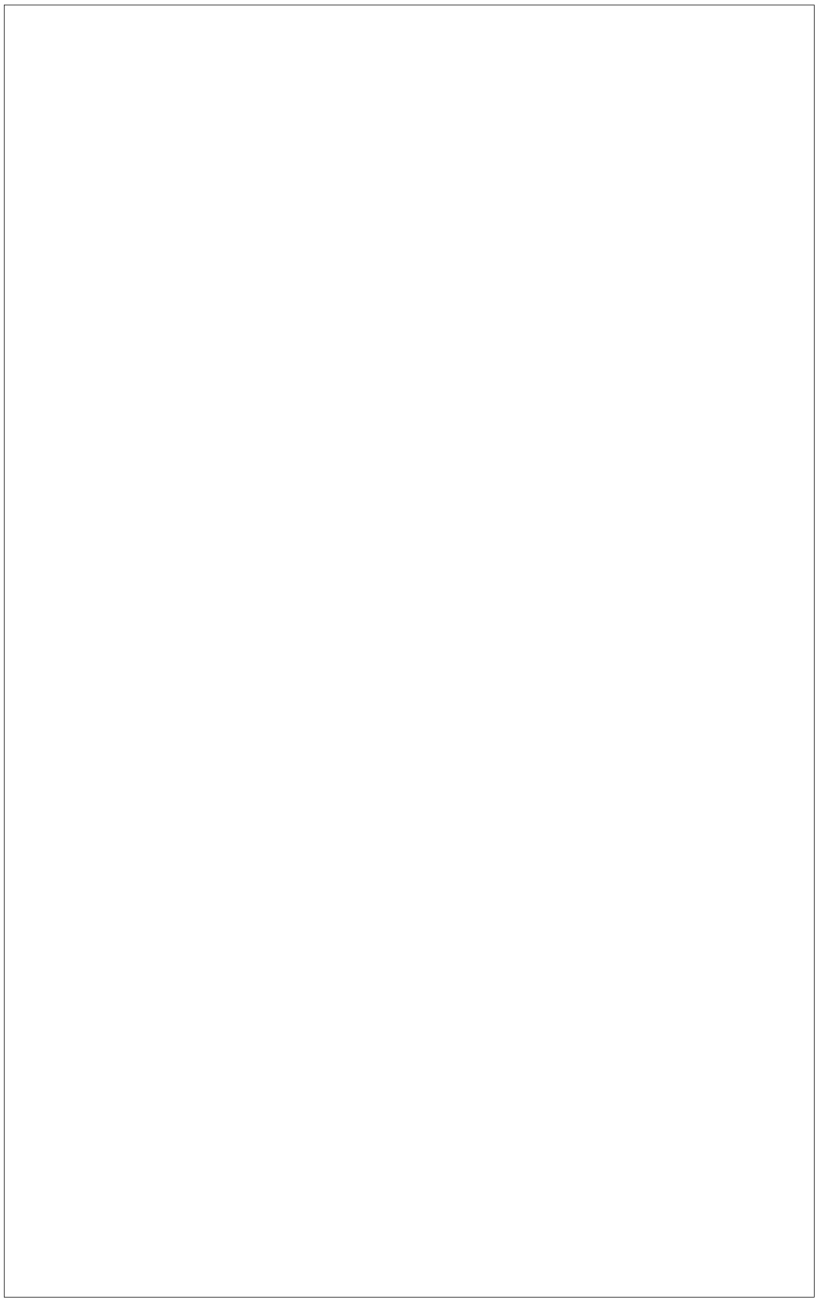

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FIJI: New Constitution Portends Renewed Ethnic Tension

The Constitution President Ganilau promulgated last Wednesday assures ethnic Fijians a majority in parliament after an election to be held by the end of next year. Ethnic Fijians are allocated 37 seats and ethnic Indians 27 seats in the 70-member lower house; the ethnic Fijian President will appoint the upper house, to be made up of 24 ethnic Fijians and 10 members of other ethnic groups. The predominantly Indian opposition has rejected the Constitution as racist and has threatened to boycott the election.

Comment: The Constitution satisfies most ethnic Fijians, who resent Indian dominance in commerce and the professions, but it assures further racial polarization. It also curtails the army's role in government; General Rabuka, the military commander and two-time coup leader, will not hold a Cabinet post. Nevertheless, Rabuka retains wide support among conservative Fijians. They look to the military as guarantor of their political dominance and probably would support Rabuka's aspirations to become prime minister.

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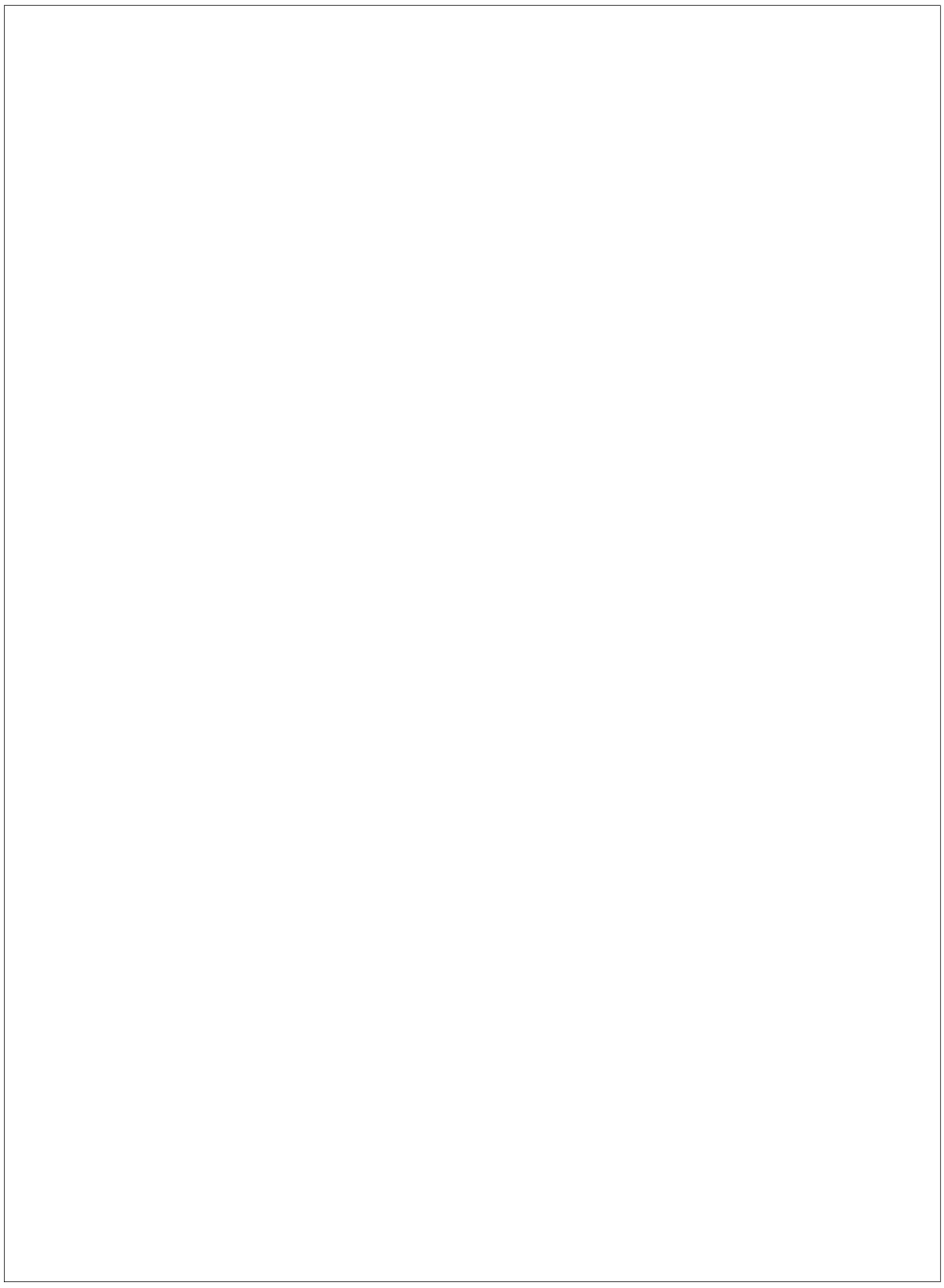

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In Brief

USSR

— **USSR** faces "serious problem" in emigration to **Czechoslovakia**, could become "uncontrollable flood," Moscow radio reports . . . no confirmation large numbers leaving . . . report shows concern that may further delay less restrictive emigration law.

— Ukrainian legislature resolved yesterday to keep Ukrainians serving in **Soviet** military out of ethnic conflicts and in republic . . . challenges Moscow's control over defense, but Kiev lacks capability to implement resolution.

Europe

— EC likely to sign a trade and cooperation agreement with **Romania** in October, contingent on Bucharest's good behavior . . . EC probably will also recommend G-24 aid to Romania.

— **Belgium** may place half its military units in reserve . . . result of perceived increase in warning time . . . affected units probably will be withdrawn from Germany.

East Asia

— **Japanese**, US oil firm plan to revive offshore liquefied natural gas project near Hainan, **China** . . . forecasting 1.5-million-ton annual production for export to Japan . . . nearly $1 billion project first commercial LNG development in China.

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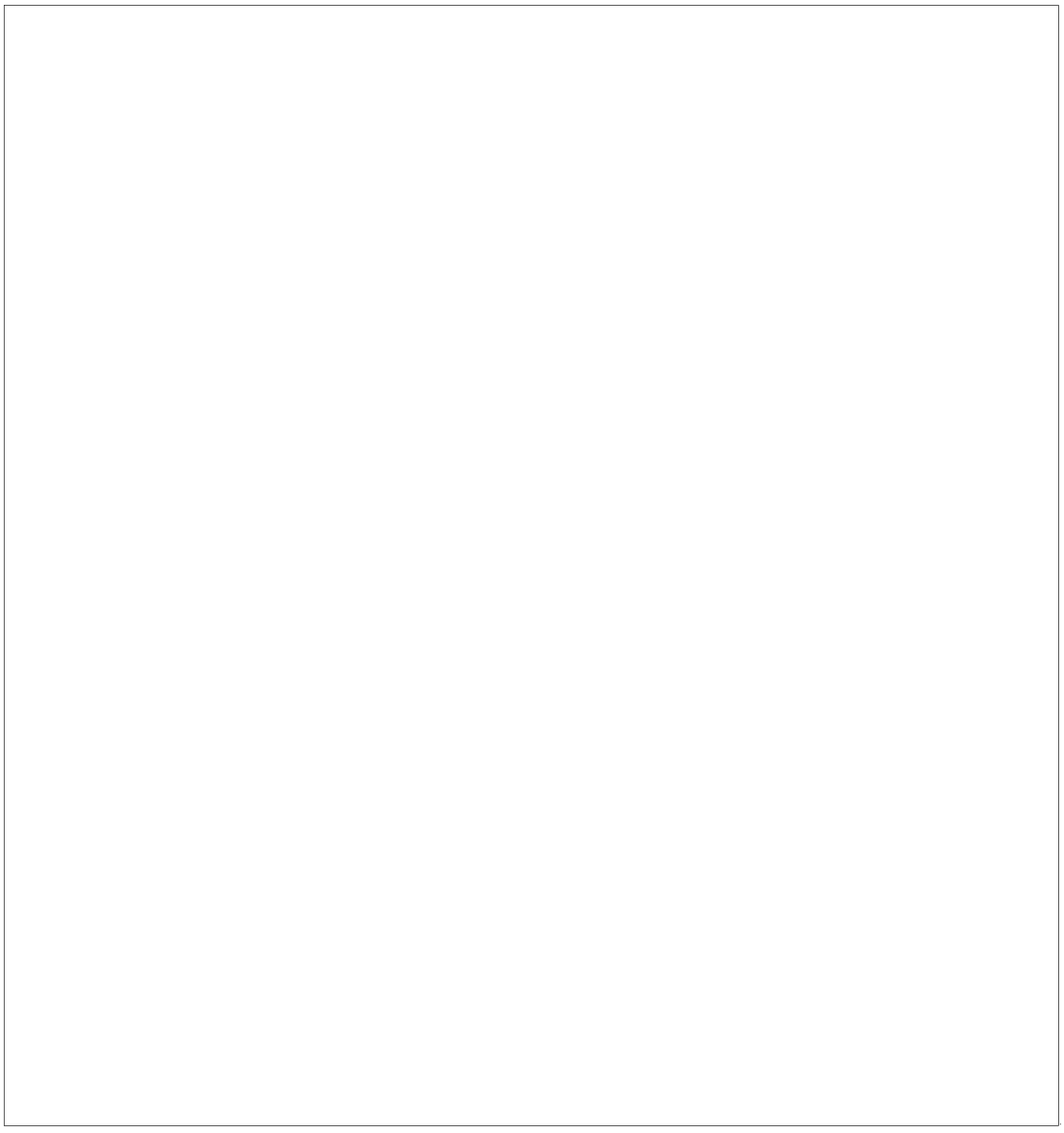

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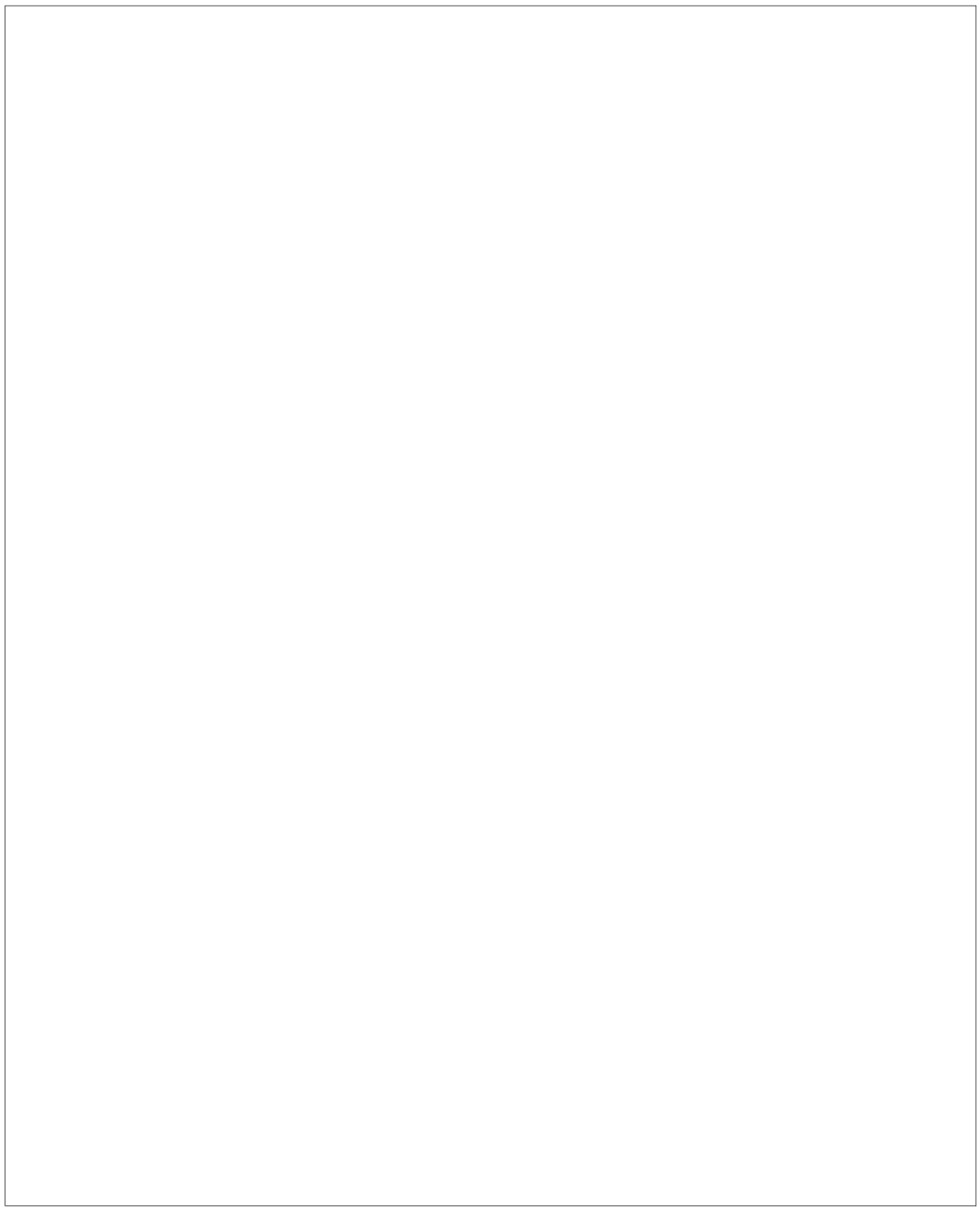

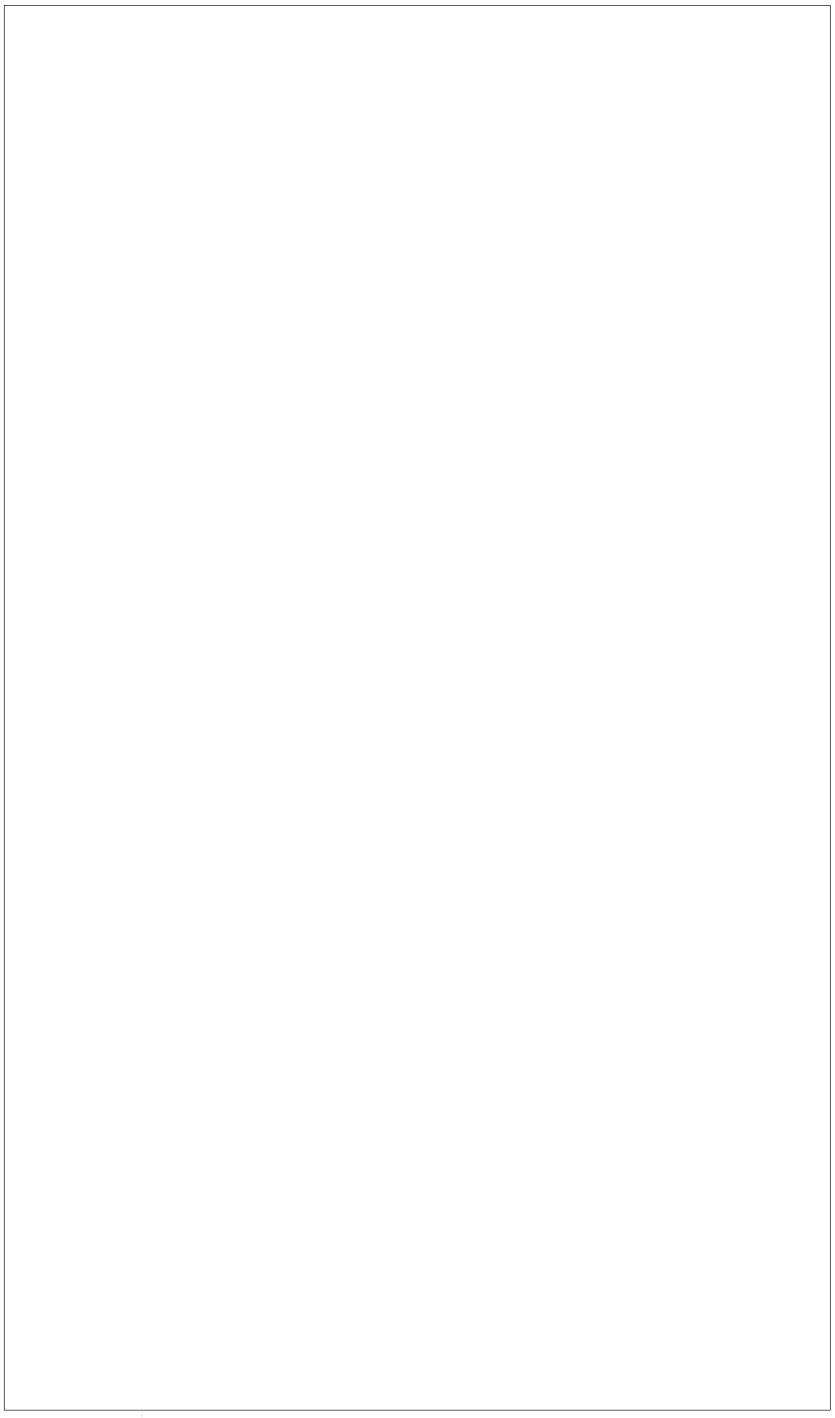

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Vietnam's Troubled Party

Even before the upheaval in Eastern Europe, Vietnam's leaders were disturbed by growing corruption in the party, a sharply rising crime rate, and demonstrations by farmers, students, and war veterans. Various reports indicate traditionalist party members in particular feared the party was losing authority as a result of the economic reform program initiated at the party congress in 1986.

Despite insistence that it remained committed to economic reform, it was apparent by late 1988 that the leadership was having second thoughts about political liberalization. General Secretary Linh's public criticism in March 1989 of "pluralism" and "multiparty democracy" suggested that the party's monopoly on power was being challenged, even from within the party. These fears were no doubt exacerbated as party leaders observed the fates of East European leaders who similarly tried to loosen political strictures.

At the Central Committee plenum in March 1990, the party showed it would move strongly against challenges to one-party rule when it dismissed reformist Politburo member Tran Xuan Bach from all his party posts. Bach had not openly advocated a multiparty system, but in speeches and interviews he had criticized the slow pace of reform and said political reform should occur in tandem with economic reform.

Bach's ouster leaves the reform movement without a high-level spokesman, especially since Linh no longer speaks out forcefully in favor of reform as he did several years ago. The suppression of these voices of political reform has had a chilling effect on other advocates of change.

Special Analysis

VIETNAM:

Leadership Edgy About Problems at Home

As Vietnam begins talks with the US on Cambodia, the leadership is preoccupied with the pace and scope of reform at home and hopes to forestall any protest a la Tiananmen Square. A number of Vietnamese leaders see a need for political liberalization as well as for economic reform, but growing factionalism in the party and a consensus style of governing probably mean that political reform will come slowly. Meanwhile, Hanoi is addressing some grievances even as it increases surveillance and arrests of dissidents and foreigners.

Vietnam's Communist Party is bewildered by what it views as the "crisis in the socialist world," Hanoi is acknowledging that events in Eastern Europe are not an aberration and that it must try to adapt to the new developments. Events thus are forcing the leadership to take a more introspective look at Vietnam's own domestic problems and at possible solutions.

More Rice, More Stick

The party is reappraising its direction and future and trying to develop a strategy to defend its leading role despite its instinctive reaction to dig in. Hanoi has opted to rely on a traditional mix of persuasion and strong-arm tactics to protect its monopoly on power.

Hanoi is trying to co-opt the critics by doing something about the grievances voiced by some segments of the population. For example, when university students in Hanoi struck last year to dramatize complaints about poor living conditions, the government responded swiftly and sympathetically. Party officials confirmed that the Central Committee, in a determined attempt to head off trouble, had instructed local authorities throughout the country to settle immediately any problems between the people and the government.

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